HOUSING MARKET OUTLOOK
Sherbrooke CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2012

Housing market to ease[1]

In the Sherbrooke census metropolitan area (CMA), the new home market has registered an increase in activity in 2012 and the resale market has eased.

Housing starts will end 2012 up by 5 per cent and then drop by 6 per cent in 2013. On the resale market, transactions should stabilize by the end of 2012 (1,760 sales). For 2013, the economic fundamentals suggest that resale market activity will increase slightly (to 1,800 sales).

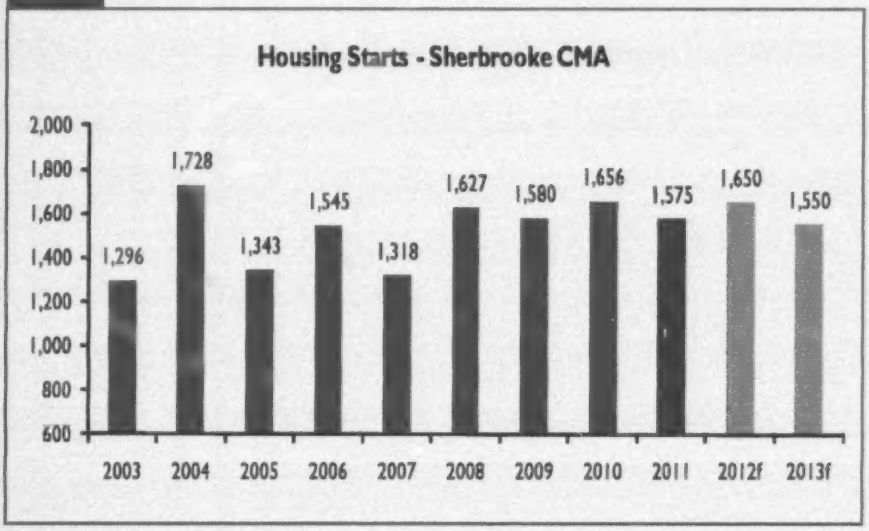
Employment to increase in 2013

The uncertainty on the world markets, combined with a decrease in investments in the area in 2011,

Table of Contents

1 Housing market to ease
1 Employment to increase in 2013
2 Net migration to remain stable
2 Resale market to ease in 2013
3 Housing starts to decrease in 2013
3 Rental market conditions to stabilize
4 Mortgage rates
5 Forecast Summary

Figure 1



Source: CMHC f: CMHC forecasts

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of October 17, 2012.

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

contributed to a slight decline in employment in 2012. The number of jobs was estimated at 98,000 in the Sherbrooke census metropolitan area (CMA) in 2012, down 1 per cent from the same period a year earlier. The job losses were mostly felt in the 25 to 44 years' age group and can be explained by a decrease in the population in this age group in the area and negative net migration in the 25 to 29 years' age group. The decline in employment was especially observed in the service, trade and manufacturing sectors, although the latter seems to be improving since the end of the summer.

Numerous investments in specialized sectors (health, technology) and the holding of the Canada Games next summer will stimulate Sherbrooke's economy in 2013. Employment should increase by 2 per cent to 100,000 jobs in 2013.

Net migration to remain stable

In 2011, net migration in the Sherbrooke CMA was positive and reached 1,741 people, which nevertheless represented a decrease of 3 per cent year over year.

We expect this level to stay the same over the next few years. In fact, some 50,000 immigrants could settle in the province of Quebec, and the demographic changes observed at the provincial level will no doubt have an impact on net migration in the Sherbrooke area, given that the CMA receives each year 2 to 3 per cent of these immigrants. And, as was the case in 2011, the Sherbrooke area will continue to welcome many people from other areas of Quebec.

It should be noted that, in 2011, the Sherbrooke CMA posted positive intraprovincial net migration for people between the ages of 30 and 39, a first in nearly 10 years. Therefore, the area would appear to be attracting more young families, which could stimulate the new home market, particularly in the more affordable segments, such as semi-detached and row homes.

For these reasons, net migration in the Sherbrooke CMA will reach close to 1,750 people in 2012 and 1,800 people in 2013. In the short term, these newcomers will stimulate demand for housing (especially rental dwellings).

Resale market to ease in 2013

The resale market eased throughout 2012. In fact, sales remained relatively stable, but active listings have been growing steadily.

On the demand side, the slightly unfavourable job market and a tighter budget framework that restricted access to financing played a role in the stabilization of MLS® sales, which should reach 1,770 units in 2012. For 2013, the economic fundamentals suggest that resale market activity will increase slightly. The job market will be a positive factor, and mortgage rates will remain favourable, but to a lesser extent than in 2012. In this context, we expect MLS® sales to rise slightly in 2013, to nearly 1,800 units (+2 per cent).

On the supply side, it should be recalled that the growing supply of homes from year to year increases, by the same token, the potential pool of MLS® sales in the Sherbrooke area.

The combination of these factors (increase in supply and demand) resulted, in the third quarter of 2012, in the resale market shifting from a balanced to a buyer's market. The market should continue to benefit buyers in 2013, while remaining close to balanced territory. This will translate into a smaller increase in the average price this year (+2 per cent) to $220,000. In 2013, the rise will remain moderate, and the average price should reach $225,000 (+2 per cent).

Figure 2

Source: QFREB by Centris® f: CMHC forecasts

It should be noted that, even though the single-family housing market is easing, it remained balanced in the third quarter of 2012, but near the buyer's market threshold. The easing trend that started in early 2010 continued. In September 2012, this segment still posted good results, with total sales up 3.1 per cent from the same period in 2011. It should be mentioned that the single-family housing segment accounts for about two-thirds of the resale market.

The condominium segment remains relatively marginal in the CMA, but sales have been following a general upward trend over the last decade. The market remains favourable to buyers but has been tightening since 2009. This market segment can be expected to continue to increase in popularity in the years to come.

Housing starts to decrease in 2013

From January to September 2012, foundations were laid for close to 1,300 housing units in the Sherbrooke CMA. At this rate, we expect that the Sherbrooke CMA will end 2012 with 1,650 housing starts (+5 per cent). However, this increase conceals different realities.

Single-detached, semi-detached and row housing starts climbed from 724 units in the first nine months of 2011 to 879 units during the same period in 2012. The addition of two new zones to the CMA (Orford and Val-Joli), the still favourable mortgage rates and the popularity of semi-detached and row homes over the past three years, thanks to their affordability, were all factors that can explain this growth. As well, single-detached housing starts posted their first increase since 2008.

Condominium construction remains marginal. In the third quarter of 2012, 49 condominium units were started, compared to 79 during the same quarter in 2011. Projects planned for 2013 will likely result in some growth in condominium construction.

That being said, we believe a slowdown will be felt in 2013 and that foundations will be laid for 1,550 units (-6 per cent). Housing starts will be negatively impacted by the expected rise in mortgage rates and the current easing of the resale market.

Apartment starts, for their part, reached 403 units in the first three quarters of 2012, down 15 per cent from the same period in 2011. The rise in the vacancy rate over the past few years certainly had a negative impact on rental apartment construction, and we believe that the downward trend will continue in 2013.

Rental market conditions to stabilize

According to the results of the CMHC Rental Market Survey conducted in October 2011, the rental apartment vacancy rate stabilized in the Sherbrooke CMA. After climbing by 0.7 of a percentage point in 2010, to 4.6 per cent, this rate rose to 4.7 per cent in 2011. The vacancy rate has been easing more significantly for the past four years, mainly as a result of a strong shift to homeownership. It should be mentioned that the increase in the size of the rental housing stock also contributed to the rise in the vacancy rate, but to a lesser extent.

Another factor to consider is the number of migrants who arrived in the Sherbrooke CMA this year or will be arriving in the area in 2013. Most of these new migrants, when they arrive, will be looking for an apartment. This will help maintain and even boost demand for rental units.

Figure 3

Source: CMHC f: CMHC forecasts

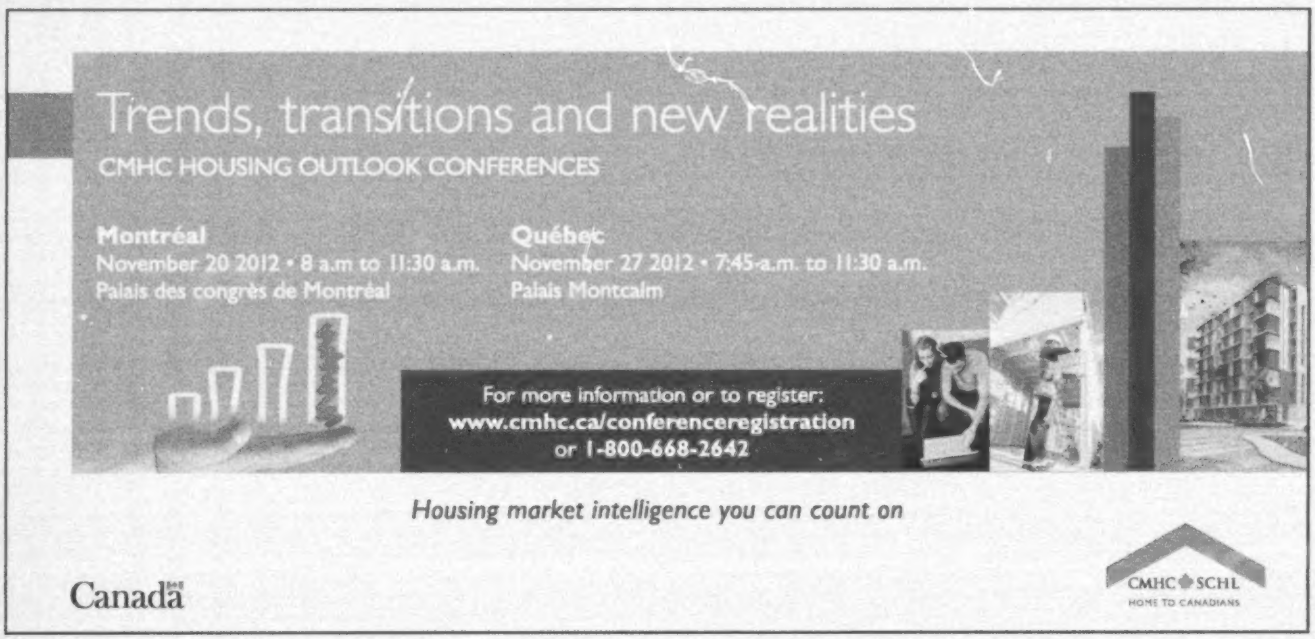
In spite of this steady demand, it should not be forgotten that more units will be added to the rental housing stock, increasing supply on this market. However, as we previously observed, rental housing starts have already begun to slow down in 2012, and we believe that this trend will continue in 2013, which should limit the easing of the vacancy rate.

Under these conditions, the vacancy rate will remain stable at 4.8 per cent in 2012. The expected slowdown in rental apartment construction in 2013 and the increase in interest rates will curb the movement to homeownership and cause the vacancy rate to drop slightly, to 4.5 per cent, in 2013.

Given the easing trend recorded over the past few years on the rental market, the increase in the monthly rent should moderate compared to previous years. The average monthly rent for two-bedroom apartments will reach $580 this year, up by less than 1 per cent, and then $590 in 2013, for an increase of 1.7 per cent.

Mortgage rates

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards. According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.



Forecast Summary
Sherbrooke CMA [1]
Fall 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,801	1,729	1,760	1,770	0.6	1,800	1.7
MLS® Active Listings	1,321	1,333	1,388	1,550	11.7	1,600	3.2
MLS® Average Price ($)	193,247	204,421	215,449	220,000	2.1	225,000	2.3
New Home Market							
Starts:							
Single-Detached	668	570	557	600	7.7	550	-8.3
Multiples	912	1,086	1,018	1,050	3.1	1,000	-4.8
Starts - Total	1,580	1,656	1,575	1,650	4.8	1,550	-6.1
Average Price ($) - excluding Magog:							
Single-Detached	219,732	197,101	184,319	190,000	3.1	200,000	5.3
New Housing Price Index (% chg) (Que.)	3.1	3.1	2.6	n.a.	-	n.a.	-
Rental Market - excluding Magog in 2006							
October Vacancy Rate (%)	3.9	4.6	4.7	4.8	-	4.6	-
Two-bedroom Average Rent (October) ($)	553	566	577	580	-	590	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	96,800	92,600	99,000	98,000	-1.0	100,000	2.0
Unemployment rate (%)	6.6	7.6	6.9	7.2	-	6.8	-
Net Migration	1,790	1,800	1,741	1,750	0.5	1,800	2.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada. CMHC Forecast (2012-2013).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2012 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at chic@cmhc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on

25 years ans

FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

On June 1, 2012, CMHC's Market Analysis Centre turned 25!

CMHC's Market Analysis Centre has a strong history as the Canadian housing industry's "go-to" resource for the most reliable, impartial and up-to-date housing market data analysis and forecasts, in the country.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

Housing for Older Canadians –
The Definitive Guide to the Over-55 Market

- Independent Living
- Aging in place
- A Series of Online Guides

Find out more

64295_2012_B02